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UNCLAS HARARE 000296

SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [ELAB](#) [PGOV](#) [ZI](#)

SUBJECT: Inflationary Pressures Not Abating

1. Summary: Zimbabwe's year-to-year inflation rate has reached 623 percent. Higher duty on many imports and a weakening zimdollar ensure that inflation will remain high. End Summary.

Higher duties

2. The GOZ has raised duty on many imports, in particular on cars. Customs officials now appraise imports by converting at the Reserve Bank of Zimbabwe's (RBZ) auction rate (currently about Z\$4,000:US\$) rather than the official rate (Z\$824:US\$). However, the GOZ has attempted to soften the blow on transport by reducing duty collected from 40 to under 5 percent. Due to confusion over the new duty, fuel temporarily disappeared from the stations over the past few days.

Auction, street rates heading up

3. At the same time, importers will have to pay more for forex. Both auction and parallel rates seem to be devaluing by about 10 percent/week. The RBZ appears to have resigned itself to fact that the zimdollar will steadily lose value while inflation remains high. Yet the RBZ's auction system has drawn increasing criticism from businesses. One inflamed importer told us the RBZ has repeatedly rejected his firm's bids for large amounts of forex, even when he was within the band for that day. The company's bids often never show up in the official stats.

Comment

4. The GOZ is still acting too furtively and timidly to boost exports, the only path to better economic performance. By maintaining an artificially strong zimdollar and exchanging one-quarter of export revenue at the official rate, most exporters are not internationally competitive enough to raise output. The RBZ will not divulge its forex reserves, but it may soon no longer be able to offer US\$16 million/week at the auctions. If it reduces the forex supply at twice-weekly auctions, the zimdollar's value will collapse - very rapidly, in our view.

5. Yet the GOZ continues to dig for that elusive forex pony. It plays up the illegality of parallel market dealing in the official press each day, hoping to scare forex dealers into the auction system. It has erected a new committee to coax Zimbabweans abroad to use the auction system for their transfers to relatives. However, the GOZ still does not appreciate that it matters little whether forex makes its way into Zimbabwe through official or unofficial channels: Zimbabweans will find forex scarcer (in nominal terms) so long as the country exports less (and attracts fewer tourists).

Sullivan